Inflation – MCQs

1) S16/11/Q22

The UK inflation rate as measured by the Consumer Price Index was 5.2% in September 2011. In June 2014 the UK inflation rate as measured by the Consumer Price Index was 1.6%.

What can definitely be concluded about the period September 2011 to June 2014?

A Fixed income earners had increased purchasing power.

B Prices were falling.

C The rate of price increases was slowing.

D The real rate of interest became positive.

2) S16/12/Q30

Which policy, adopted by a government with the intention of reducing the rate of inflation, might cause a greater deficit on the balance of payments?

A higher foreign exchange rates for its currency

B higher interest rates for domestic customers

C higher subsidies to domestic producers

D higher tax rates on consumer incomes

3) S16/13/Q20

What must be true if an economy is experiencing inflation?

A Aggregate demand is increasing.

B Aggregate supply is decreasing.

C The interest rate is increasing.

D The real value of money is decreasing.

4) S16/13/Q30

Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

5) W16/11/Q21

Over a period of a year, the annual rate of inflation becomes negative.

Which statement must be correct?

A The cost of living has fallen.

B The purchasing power of money has fallen.

C The standard of living has increased.

D There has been an increase in the Consumer Price Index.

6) W16/12/Q20

In 2012, the rate of inflation in Botswana was 7.5%. Person X kept all of their savings in the form of cash while Person Y put their savings into a bank account on which they earned 5.0% interest.

What was the effect on the real value of their savings by the end of the year?

	Person X	Person Y
A	decrease	decrease
B	decrease	increase
C	no change	decrease
D	no change	increase

7) W16/12/Q30

A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a rise in unemployment.

Which action is most likely to meet its needs?

A an increase in employment taxes

B an increase in laws to promote competition

C an increase in the budget surplus

D an increase in the exchange rate

8) W16/13/Q20

An increase in a country's consumer price index implies an increase in

A the cost of living.

B the rate of inflation.

C the standard of living.

D the value of money.

9) W16/13/Q21

The figures in the table were taken from the consumer price indices of retail prices for three countries.

Country	2014	2015
X	100	120
Y	140	150
Z	90	99

Between 2014 and 2015, what is correct?

A Country X has the highest growth in the purchasing power of money.

B Country Y has the highest growth in the purchasing power of money.

C Country Z has the lowest rate of inflation.

D Country Y has the lowest rate of inflation.

10) W16/13/Q30

Which combination of policies is most likely to reduce inflation when an economy is close to full employment?

A increasing government spending on food subsidies and reducing import duty

B increasing government spending on road building and increasing import duty

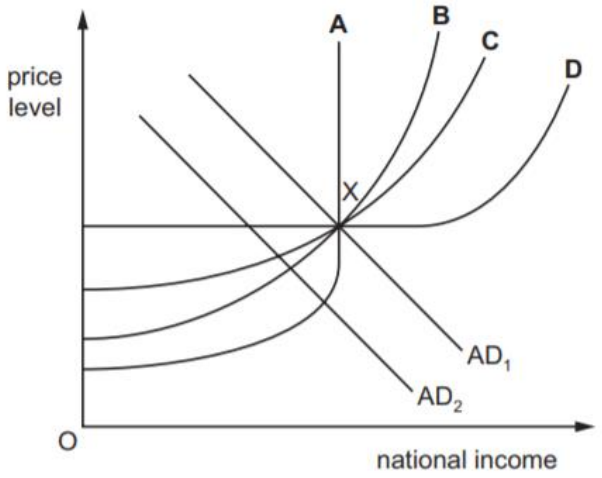
C reducing government spending on training and increasing indirect taxes

D reducing government spending on training and reducing the rate of interest

11) M17/12/Q30

The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2.

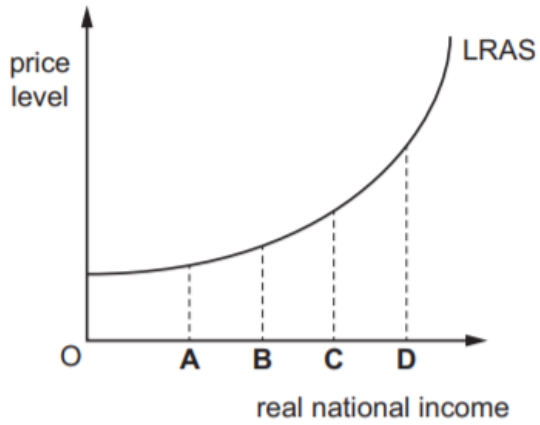
With which AS curve would this policy be least effective?



12) S17/11/Q20

The diagram shows the long-run aggregate supply (LRAS) curve of an economy.

At which equilibrium level of national income is a balance of trade surplus likely to cause the greatest inflationary increase for the economy?



13) S17/11/Q21

A government succeeds in changing a current account deficit into a current account surplus.

Why might this current account surplus increase the country's inflation rate?

A It raises aggregate demand.

B It raises production costs.

C It reduces the exchange rate.

D It reduces the money supply.

14) S17/12/Q20

Which statement about changing price levels is correct?

A Anyone on a fixed income has rising real income during deflation.

B Government revenue from indirect taxes falls during inflation.

C Producers prefer deflation to inflation.

D Savers prefer index-linked savings when there is deflation rather than inflation.

15) S17/12/Q21

Which combination of events is most likely to cause inflation?

	exchange rate	direct taxes	money supply
A	falling	falling	falling
B	falling	falling	rising
C	rising	rising	rising
D	rising	rising	falling

16) S17/12/Q30

An economy is currently operating close to its full employment level of national income.

Which combination of macro-economic policies would be most likely to have net deflationary effects?

A a 10% cut in the standard rate of income tax and a 5% devaluation of the currency

B a 10% cut in the standard rate of income tax and a 5% revaluation of the currency

C a 10% rise in the standard rate of income tax and a 5% devaluation of the currency

D a 10% rise in the standard rate of income tax and a 5% revaluation of the currency

17) S17/13/Q28

What is a deflationary fiscal measure?

A reducing interest rates

B reducing the money supply

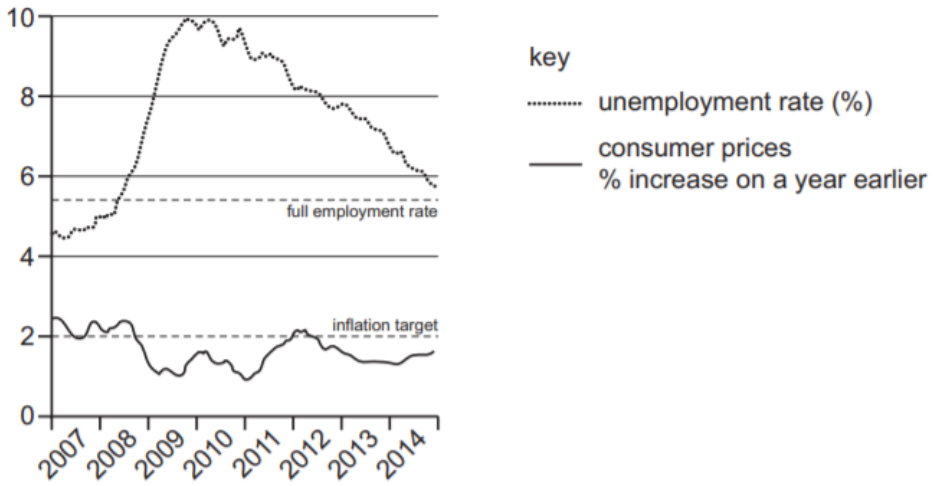
C increasing taxes

D increasing government expenditure

18) S17/13/Q30

The US Federal Reserve has a stable price (2% inflation) target and a full employment (5 to 5.2% unemployment) target.

The diagram shows the inflation rate and unemployment rate that existed between 2007 and 2014.



What can be concluded about the performance of Federal Reserve economic policy, 2007 to 2014?

A The continuing deflation meant failure in the inflation target.

B The inflation target was achieved less frequently than the employment target.

C The least successful period for economic policy was experienced in 2007.

D The nearest to complete policy success was achieved in 2008.

19) W17/11/Q20

The table shows a country's consumer price index for March and April 2015.

	consumer price index
March 2015	151.3
April 2015	148.6

Which statement correctly describes what happened between these two months?

A There was a decrease in the annual rate of inflation.

B There was a decrease in real interest rates.

C There was an increase in the purchasing power of money.

D There was an increase in the standard of living.

20) W17/11/Q21

What would be likely to increase inflation in an economy?

A an increase in consumer saving

B an increase in interest rates

C an increase in labour productivity

D an increase in taxes on imports

21) W17/11/Q30

Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	increasing the budget deficit	reducing the interest rate
B	increasing the budget deficit	reducing the money supply
C	reducing the budget deficit	reducing the interest rate
D	reducing the budget deficit	reducing the money supply

22) W17/12/Q20

The table shows the retail prices index for four countries for years 2 and 3.
(Year 1 index = 100 for all countries.)

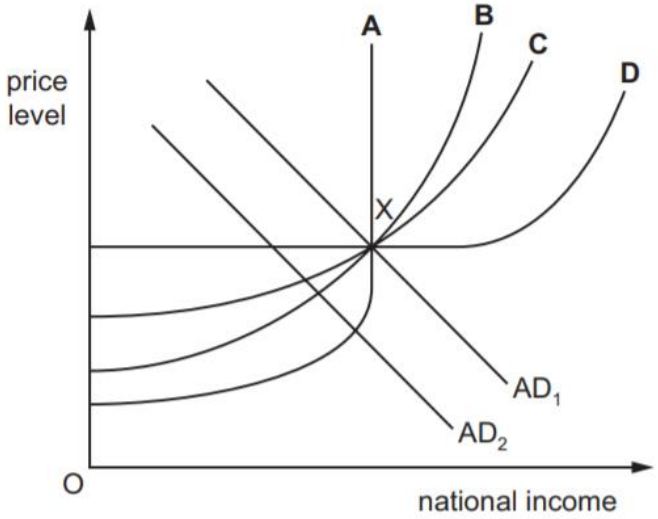
Which country had a higher rate of inflation in year 2 than year 3?

country	year 2 index	year 3 index
A	100	115
B	110	132
C	120	144
D	130	150

23) W17/12/Q30

The diagram shows four possible aggregate supply curves and an equilibrium point X. A government employs deflationary fiscal policy in order to reduce the rate of inflation in its economy. This shifts aggregate demand to AD_2.

With which AS curve would this policy be most effective?



24) W17/13/Q20

What would be likely to decrease inflation in an economy?

A a decrease in consumer saving

B a decrease in unemployment

C an increase in labour productivity

D an increase in taxes on imports

25) W17/13/Q30

Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

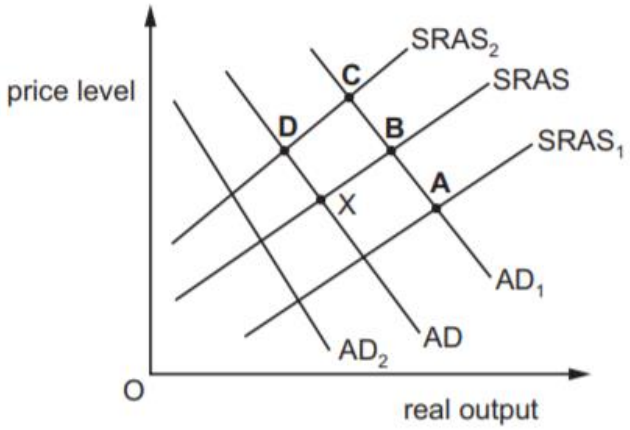
D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

26) M18/12/Q20

In the diagram an economy is initially in equilibrium at point X.

The government increases spending on education. This coincides with an increase in wage rate inflation.

Which point shows the most likely short-run equilibrium of the economy?



27) M18/12/Q22

The table shows the CPI rate of inflation (%) in the United States from 2006 to 2013.

2006	2007	2008	2009	2010	2011	2012	2013
2.5%	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%	2.0%

What can be concluded from the figures about the period 2006 to 2013?

A There was one year of constant prices.

B There were three years of deflation.

C There were only four years of inflation.

D There were eight years of rising living costs.

28) S18/11/Q30

A country has a target rate of inflation of 2.5% and has recently experienced the actual rate rising to 6%, with unemployment falling to very low levels.

Which policy option is most likely to be implemented?

A an increase in government expenditure on training

B an increase in indirect taxes on demerit goods

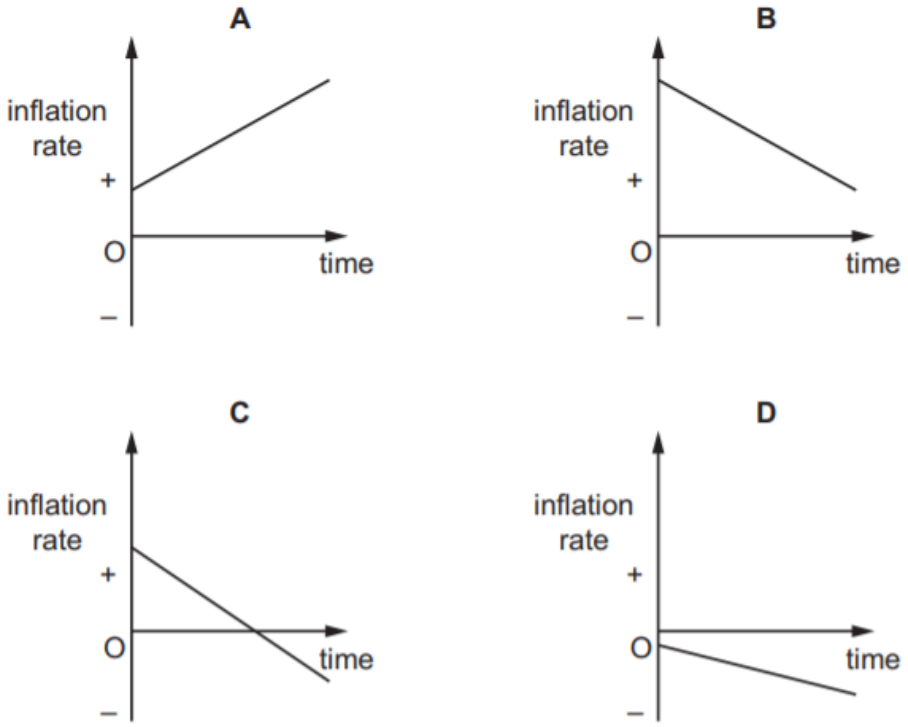
C an increase in import tariffs

D an increase in interest rates

29) S18/12/Q20

The diagrams show the inflation rate over time in four countries.

Which country experiences a falling cost of living throughout the period?



30) S18/12/Q21

A government statistical office measured changes in income from employment, pensions and benefits, then subtracted income tax and welfare contributions and adjusted for inflation.

What did the final figure represent?

A changes in nominal income

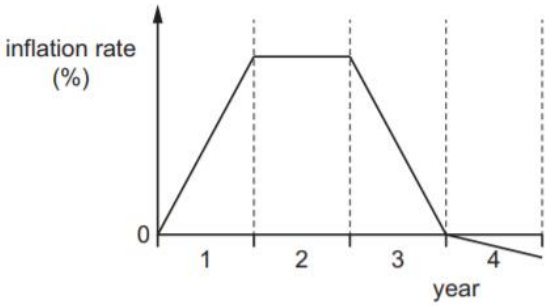
B changes in nominal net earnings

C changes in real disposable income

D changes in real gross earnings

31) W18/11/Q21

The diagram shows the change in an economy's rate of inflation over 4 years.



What happened to the general price level over the 4 years?

	year 1	year 2	year 3	year 4
A	constant	constant	fell	constant
B	rose	constant	fell	fell
C	rose	rose	rose	constant
D	rose	rose	rose	fell

32) W18/12/Q20

The table shows the consumer price index (CPI) and national output at current prices in 2014 and 2015 for an economy.

year	CPI	national output at current prices
2014	100	100
2015	120	110

What can be concluded when 2015 is compared with 2014?

A Money national output decreased by 10%.

B Money national output increased by 20%.

C Real national output fell.

D Real national output increased.

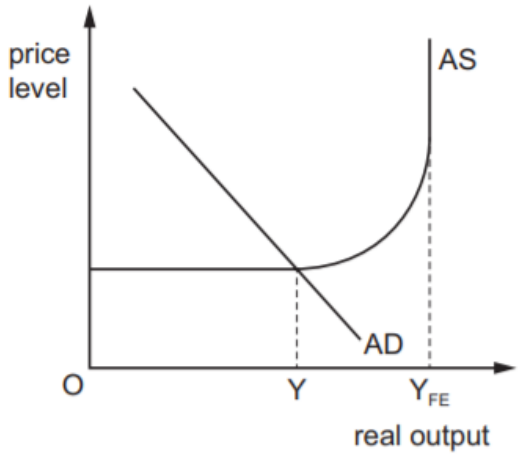
33) W18/12/Q30

Which policy mix is most likely to be effective in the short run for reducing inflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget surplus	increasing the interest rate
B	decreasing the budget surplus	increasing the money supply
C	increasing the budget surplus	increasing the interest rate
D	increasing the budget surplus	increasing the money supply

34) W18/13/Q19

An economy has an equilibrium level of real output Y, but wishes to move towards its full employment level of real output Y_{FE}.



Which combination of policy measures is most likely to achieve this wish without high inflation?

A decreasing interest rates and raising investment in new technology

B decreasing the money supply and raising corporation tax rates

C increasing interest rates and raising income tax thresholds

D increasing the money supply and raising welfare benefit payments

35) W18/13/Q30

The government increases interest rates in order to reduce the rate of inflation.

What will also result from this action?

A a depreciation of the country's currency

B a fall in the level of savings

C a reduction in economic growth

D a reduction in unemployment

36) M19/12/Q29

A government is faced with rising inflation. It wishes to reduce inflationary pressure while avoiding a fall in output.

Which action is **most** likely to meet its needs?

A an increase in laws to promote competition

B an increase in taxation

C an increase in the budget surplus

D an increase in the exchange rate

37) S19/11/Q21

Which effect of inflation is described as redistributive?

A the improvement in the terms of trade

B the increased reluctance of people to hold money

C the inconvenience of frequently changing prices

D the loss of purchasing power of people on fixed incomes

38) S19/11/Q30

A country with low unemployment and a managed floating exchange rate has a persistent current account deficit on its balance of payments.

Which policy to reduce this deficit is **most** likely to keep unemployment low, but cause inflation?

A depreciating its currency

B higher direct taxation

C higher import tariffs

D higher interest rates

39) S19/12/Q25

An economy is experiencing a period of deflation.

What must be happening?

A The average price level is falling.

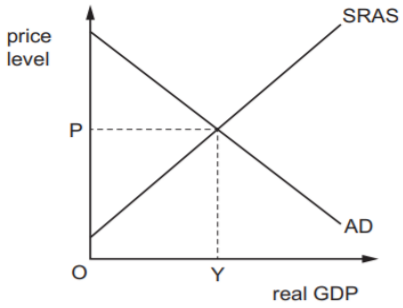
B The output of the economy is falling.

C The rate of inflation is falling.

D The real value of money is falling.

40) S19/12/Q29

An economy is currently in the position PY shown on the diagram.



Which short-run effects is government spending on education likely to have on unemployment and inflation?

	unemployment	inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

41) S19/13/Q19

How is a rate of inflation that is lower than that expected likely to affect lenders and borrowers in an economy?

	effect on lenders	effect on borrowers
A	beneficial	beneficial
B	beneficial	harmful
C	harmful	beneficial
D	harmful	harmful

42) S19/13/Q26

What is likely to be the **least** effective store of value during a period of rapid inflation?

A antique furniture

B fixed interest government securities

C houses

D shares of industrial companies

43) W19/11/Q3

In Zimbabwe there was hyperinflation.

Which two functions of money might the Zimbabwe dollar be **most** likely to have still performed during this hyperinflation?

A medium of exchange and store of value

B standard for deferred payments and unit of account

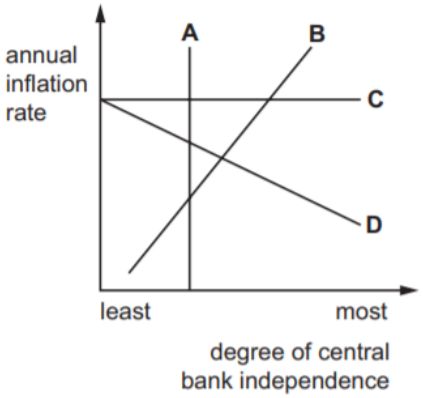
C store of value and standard for deferred payments

D unit of account and medium of exchange

44) W19/11/Q29

The diagram shows the possible relationships between the degree of independence of the central bank and the level of inflation.

Which relationship suggests that central bank independence is an effective way to reduce inflation?



45) W19/11/Q30

Which change in economic circumstances is **most** likely to lead to a reduction in the rate of domestic inflation in an economy?

A a depreciation in the currency

B a reduction in the productivity of labour

C a world-wide recession

D an increase in direct taxes to finance increased welfare payments

46) W19/12/Q22

The table shows the annual percentage increases in a country's consumer prices index (CPI).

year	% change
2015	8.3
2016	6.0
2017	6.0
2018	1.0

Which statement is correct?

A Consumer prices, on average, fell throughout the period.

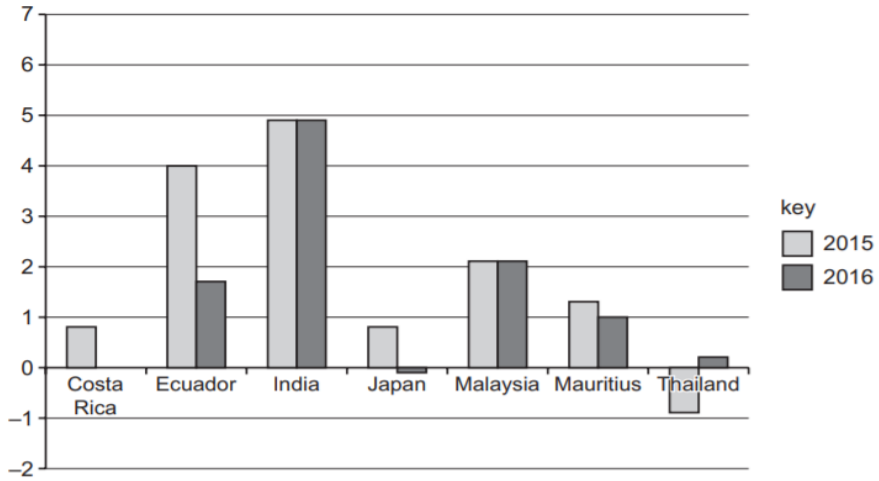
B Consumer prices, on average, remained the same in 2016 and 2017.

C The general level of consumer prices was at its highest in 2015.

D The general level of consumer prices was at its highest in 2018.

47) W19/13/Q21

The graph shows the rate of inflation for seven countries for 2015 and 2016.



What can be concluded from this graph?

A Prices in Costa Rica rose in 2015 but remained constant in 2016.

B Prices in Ecuador and Mauritius were lower in 2016 than in 2015.

C Prices in India and Malaysia remained constant in 2016 and 2015.

D Prices in Thailand and Japan were lower in 2016 than in 2015.

48) W19/13/Q25
What must be true if an economy is experiencing inflation?

A Aggregate demand is increasing.

B Aggregate supply is decreasing.

C The interest rate is increasing.

D The real value of money is decreasing.

49) W19/13/Q28
An economy experiences cost-push inflation.

Which combination of policies would be best for the economy to use to reduce cost-push inflation?

	exchange rate	supply-side policy
A	appreciate	lower minimum wage
B	appreciate	raise minimum wage
C	depreciate	lower minimum wage
D	depreciate	raise minimum wage

50) W19/13/Q30
A government adopts a more expansionary fiscal policy and a more deflationary monetary policy.

Which combination of changes in policy instruments is consistent with this?

	government expenditure	taxation	interest rate
A	decrease	decrease	decrease
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	increase

51) M20/12/Q26
Which statement describes disinflation?

A a fall in the price level

B a fall in the rate of inflation

C a rise in the value of money

D inflation below zero

52) S20/11/Q30

A country experienced a significant fall in unemployment but its inflation rate remained low.

What could explain this?

A Global competition prevented firms passing on higher costs.

B Increased spending on imports had lowered the exchange rate.

C There was a low level of spare capacity in the economy.

D Wage rates had increased by more than labour productivity.

53) S20/11/Q25

What is an expenditure-switching policy to reduce a country's balance of payments deficit?

A an increase in budget surplus

B an increase in direct taxes

C an increase in import tariffs

D an increase in interest rates

54) S20/12/Q23

According to US Consumer Prices Index (CPI) statistics, an identical good that cost $100 in 1913 would cost $2359.60 in 2013.

What was the approximate cumulative rate of inflation over the period?

A 23% **B** 230% **C** 2300% **D** 23000%

55) S20/12/Q27

In an economy with an interest rate of 4% per annum, the rate of inflation falls from 5% to 3% per annum.

What will be a benefit of this fall?

A Menu costs will fall to zero.

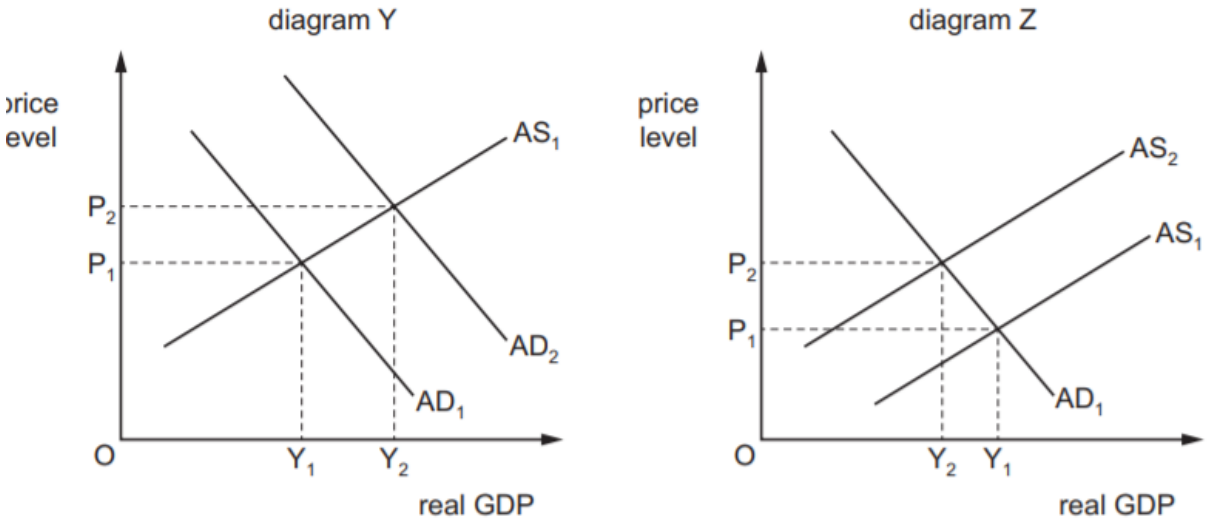
B People on fixed incomes will be better off in real terms.

C Savers will gain in real terms.

D The purchasing power of the currency will rise.

56) S20/12/Q30

During the Great Depression the US government believed that deflation was caused by a collapse in the prices of stock and other assets, reducing the levels of wealth and confidence. The diagrams show two approaches to counter deflation.



Given this belief, which policy should the US government have used, in an attempt to remove the deflation and which diagram represents the intended outcome of the policy?

	policy	intended outcome
A	decrease interest rates	diagram Y
B	reduce corporation tax	diagram Z
C	increase interest rates	diagram Z
D	reduce corporation tax	diagram Y

57) S20/13/Q25

The real national income of a country fell by 3%.

What could have caused this?

A Money national income fell by 3% when the rate of inflation was 6%.

B Money national income fell by 6% when the rate of inflation was 3%.

C Money national income rose by 3% when the rate of inflation was 6%.

D Money national income rose by 6% when the rate of inflation was 3%.

58) S20/13/Q29

Which combination of fiscal and monetary policies is most likely to be effective in the short run for tackling deflation in a closed economy?

	fiscal policy	monetary policy
A	decreasing the budget deficit	decreasing the interest rate
B	decreasing the budget deficit	decreasing the money supply
C	increasing the budget deficit	decreasing the interest rate
D	increasing the budget deficit	decreasing the money supply

59) W20/11/Q22

The data shows the consumer prices index (CPI) and an index of money wages in an economy during four years.

year	1	2	3	4
CPI	100	102	105	110
index of money wages	100	102	107	110

Which statement is **not** correct?

A Inflation was at its greatest between years 3 and 4.

B Real wages remained constant between years 1 and 2.

C Real wages rose between years 3 and 4.

D The rate of inflation increased over the whole period.

60) W20/12/Q28

A government uses monetary policy and fiscal policy to solve a problem of deflation.

Which policy combination is likely to be the **most** successful?

	monetary policy	fiscal policy
A	increasing interest rates	contractionary
B	increasing interest rates	expansionary
C	reducing interest rates	contractionary
D	reducing interest rates	expansionary

61) W20/13/Q19

Under which circumstance would the rate of inflation be **most** likely to fall?

A Government spending increases and society's marginal propensity to save falls.

B Reduced interest rates result in consumers increasing their spending.

C The government increases direct taxes and the level of investment falls.

D The prices of imported raw materials rise, whilst demand for exports falls.

62) W20/13/Q27

To counter deflation a central bank uses expansionary monetary policy.

What is likely to result?

A a higher cost of borrowing

B a higher rate of inflation

C an appreciation of the exchange rate

D an increase in government debt

63) W20/13/Q29

Suppose a country has a rate of inflation well below its target rate, high unemployment and a large balance of payments deficit.

What would an economic advisor to the government be most likely to recommend?

A a long-run supply-side policy, aimed at improving the country's efficiency, so improving both the unemployment and the balance of payments positions

B a revaluation of its currency, because that would lead to reduced unemployment and an improved balance of payments

C a rise in interest rates, because it would lead to an improved balance of payments and help achieve the inflation target

D a rise in levels of direct taxation, because that would improve unemployment and move inflation in the direction of a target level

64) W20/13/Q30

Country X is an open economy with a fixed exchange rate.

Which combination of fiscal and monetary policies would be most effective in solving deflation?

	fiscal policy	monetary policy
A	lower direct taxes	devaluation
B	lower direct taxes	revaluation
C	lower indirect taxes	devaluation
D	lower indirect taxes	revaluation

65) M21/12/Q26

The table shows a country's consumer prices index (CPI) for March and April 2018.

	CPI
March 2018	151.3
April 2018	148.6

Which statement correctly describes what happened between these two months?

A There was a decrease in the annual rate of inflation.

B There was a decrease in real interest rates.

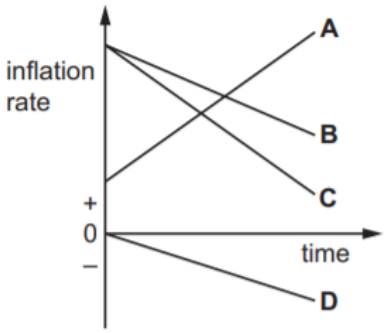
C There was an increase in the purchasing power of money.

D There was an increase in the standard of living.

66) M21/12/Q27

The diagram shows the rate of inflation over time in four countries.

Which country has a rising real value of money over time?



67) M21/12/Q28

The table shows the consumer prices index (CPI) for an economy expressed as an index number.

year	CPI
2016	100
2017	103
2018	101
2019	97

Which action is the government most likely to take to achieve price stability?

A appreciate the exchange rate

B decrease the budget deficit

C increase the money supply

D increase the rate of interest

68) S21/12/Q3

If the rate of inflation rises from 2% to 20%, which function of money is likely to be most affected?

A medium of exchange

B standard for deferred payment

C store of value

D unit of account

69) S21/12/Q22

What is correct about the causes of inflation?

A Cost-push inflation can be caused by a rising exchange rate.

B Cost-push inflation can be caused by lower indirect taxes.

C Demand-pull inflation can be caused by a rising exchange rate.

D Demand-pull inflation can be caused by lower direct taxes.

70) S21/12/Q27

Increased international competition leads to a worsening in a country's current account balance.

In the absence of any offsetting factors, how is this likely to affect the exchange rate and domestic cost-push inflation?

	exchange rate	cost-push inflation
A	appreciate	decrease
B	appreciate	increase
C	depreciate	decrease
D	depreciate	increase

71) S21/12/Q28

Why are higher interest rates together with increased taxation on expenditure likely to cause domestic deflation?

A because the contractionary monetary policy will over-ride the expansionary fiscal policy

B because the monetary and fiscal policies involved will reinforce each other

C because the expansionary monetary policy will over-ride the contractionary fiscal policy

D because the monetary and fiscal policies involved will cancel each other out

72) S21/12/Q30

Which policy will **not** cause a reduction in the rate of inflation?

A increasing income tax

B reducing government spending

C reducing interest rates

D removing subsidies

73) S21/13/Q19

What would be certain to cause a fall in a country's cost of living?

A a fall in real incomes

B a fall in the inflation rate

C a negative inflation rate

D a reduction in direct tax rates

74) S21/13/Q21

A country with a fixed exchange rate experiences a higher rate of inflation than its trading partners.

What is the likely effect on the country's volume of exports and imports?

	exports	imports
A	decrease	decrease
B	decrease	increase
C	increase	decrease
D	increase	increase

75) S21/13/Q22

A sudden rise in the price of imported oil caused the annual rate of inflation in a given period to be higher than expected.

What might be a likely result of this?

A Borrowers would gain.

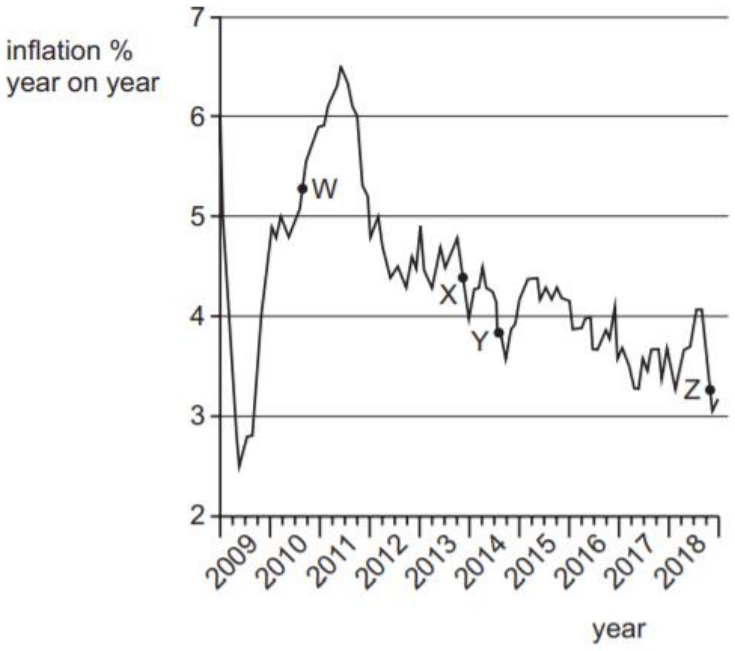
B Real wages would rise.

C The balance of trade would improve.

D Unemployment would fall.

76) S21/13/Q30

The graph shows inflation rates over 10 years for selected emerging economies.



Government central banks set target minimum inflation rates before readjusting interest rates to stabilise the economy.

If the minimum inflation rate target set by central banks was 4% per year, at which points would they allow interest rates to fall?

A W and X **B** X and Y **C** Y and Z **D** Z and W

77) W21/11/Q20

What is disinflation?

A a fall in output

B a fall in the price level

C a fall in the rate of increase of the price level

D a fall in the value of national income

78) W21/11/Q26

What is the most likely cause of cost-push inflation in an economy?

A an increase in the exchange rate

B an increase in the money supply

C an increase in the prices of imports

D an increase in the rate of income tax

79) W21/11/Q27

Which changes are most likely to reduce the accuracy of the consumer prices index (CPI) as a measurement of inflation?

A A larger sample is used in the household spending survey.

B Technology makes it easier for retailers to submit accurate monthly price data.

C Households change their spending habits.

D The weightings attached to the basket of goods are reviewed more often.

80) W21/12/Q20

Which statement about inflation is correct?

A Inflation will lead to a rise in exports.

B Inflation will lead to a rise in real incomes.

C Inflation will lead to a rise in the cost of living.

D Inflation will lead to a rise in the purchasing power of money.

81) W21/12/Q24

There is an increase in indirect taxes.

What will be the impact on demand-pull inflation and on cost-push inflation?

	demand-pull inflation	cost-push inflation
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

82) W21/12/Q29

What would make a policy of raising interest rates **less** likely to be effective in reducing inflation?

A Aggregate supply is increasing faster than aggregate demand.

B Consumers expect prices to rise even faster in the future.

C Consumers' spending is largely paid for on credit.

D Interest rates are still higher abroad.

83) W21/12/Q30

Country X is an open economy with a floating exchange rate. It changes to a fixed exchange rate.

Which combination of policy changes would be most effective in reducing inflation?

	fiscal policy	new fixed exchange rate
A	higher direct taxes	above purchasing power parity
B	higher direct taxes	below purchasing power parity
C	higher indirect taxes	above purchasing power parity
D	higher indirect taxes	below purchasing power parity

84) W21/13/Q29

Which policy would be likely to increase inflation?

A an increase in income tax

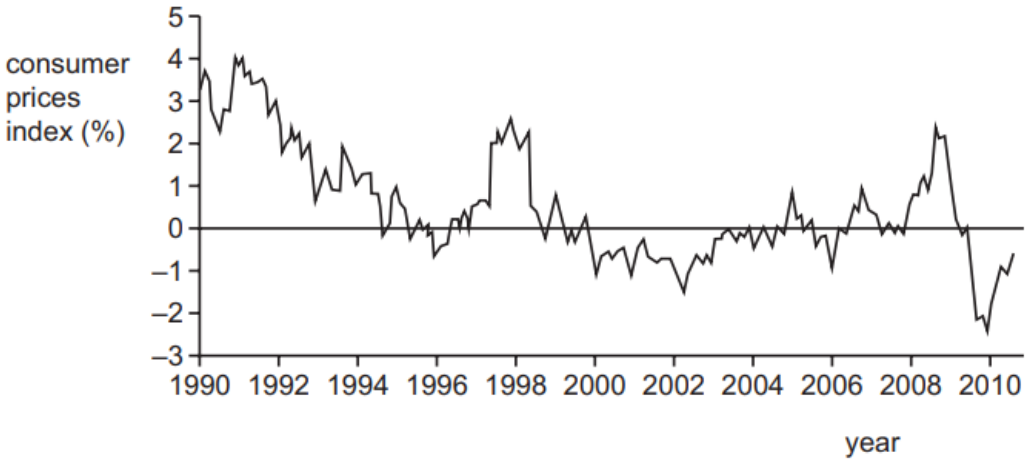
B an increase in interest rates

C limiting the amount banks can lend

D raising the level of import tariffs

85) M22/12/Q19

The diagram shows the annual consumer prices index for Japan over the years 1990–2010 inclusive.



In which period did Japan experience both inflation at a rate of approximately 2% and deflation at a rate of approximately 2.5%?

A 1992–1994 **B** 1996–1998 **C** 2006–2008 **D** 2008–2010

86) S22/11/Q29

Why will a contractionary monetary policy reduce inflation?

A Banks will lend more.

B Consumers will have higher disposable income.

C Consumers will pay more tax.

D Consumers will save more.

87) S22/11/Q30

The government of a country is worried about a large deficit on the current account of its balance of payments and an increasing rate of inflation. The country has a fixed exchange rate for its currency.

Which policy measure is **most** likely to help the government to reduce the current account deficit and lower the rate of inflation?

A devaluation of the currency

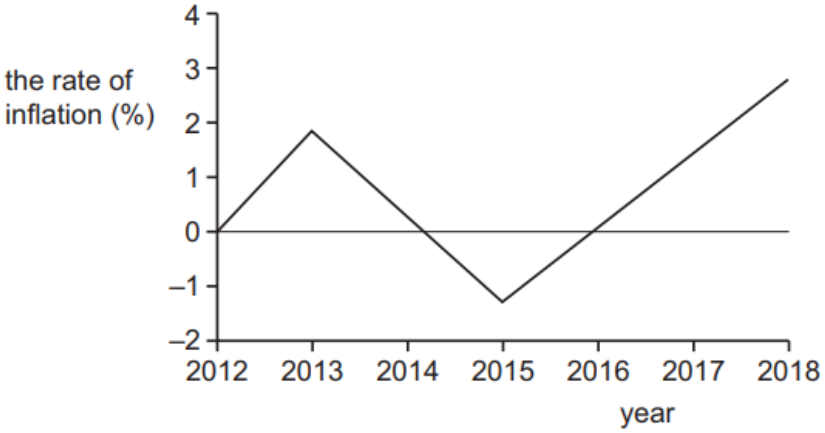
B increasing government spending

C decreasing the direct taxes

D increasing the interest rate

88) S22/12/Q22

The diagram shows the annual inflation rate in an economy.



What can be deduced from the graph?

A The price of goods and services fell between 2013 and 2014.

B Disinflation took place between 2014 and 2015.

C The purchasing power of money increased between 2014 and 2015.

D The cost of living fell from 2016 onwards.

89) S22/12/Q28

What, if decreased, will help to reduce the rate of inflation?

A budget deficit

B direct taxes

C exchange rate

D interest rate

90) S22/13/Q23

A household's income increased by 3%. Over the same period, the rate of inflation was also 3%.

Which statement is correct?

A Both the nominal income of the household and the real income of the household increased by 3%.

B The nominal income of the household remained unchanged while the real income of the household increased by 3%.

C The nominal income of the household increased by 3% while the real income of the household remained unchanged.

D The nominal income of the household increased by 3% while the real income of the household increased by 6%.

91) S22/13/Q25

In 2018, the inflation rate in Argentina was over 100%.

Which combination correctly identifies the winners and losers during this period?

	winners	losers
A	firms selling goods abroad	households paying back loans
B	firms unable to decrease real wages	firms paying back loans on fixed monthly repayments
C	individuals with a high amount of debt at a fixed rate of interest	households that hold most of their assets in cash
D	workers on fixed wage contracts	the retired on fixed incomes

92) W22/11/Q19

Assuming the demand for oil is price-inelastic, what will be the effect on demand-pull inflation and on cost-push inflation in an oil-importing country of an increase in the world price of oil?

	effect on demand-pull inflation	effect on cost-push inflation
A	increase	increase
B	increase	reduce
C	reduce	increase
D	reduce	reduce

93) W22/11/Q30

Which combination of changes is **most** likely to result in a fall in a country's inflation rate?

	exchange rate	interest rate	money supply
A	lower	higher	higher
B	higher	higher	lower
C	higher	lower	lower
D	lower	lower	higher

94) W22/12/Q21

Which effect of inflation is described as redistributive?

A the improvement in the terms of trade

B the deterioration in the balance of trade

C the inconvenience of frequently changing prices

D the loss of purchasing power for people on fixed incomes

95) W22/13/Q26

Which statement about changing price levels is correct?

A Anyone on a fixed income has rising real income during deflation.

B Government revenue from indirect taxes falls during inflation.

C Producers prefer deflation to inflation.

D Savers prefer index-linked savings when there is deflation rather than inflation.

96) W22/13/Q27

What would be likely to decrease inflation in an economy?

A a decrease in consumer saving

B a decrease in unemployment

C an increase in labour productivity

D an increase in taxes on imports

97) W22/13/Q28

Which change in economic circumstances is **most** likely to lead to a reduction in the rate of domestic inflation in an economy?

A a depreciation in the currency

B a reduction in the productivity of labour

C a worldwide recession

D an increase in direct taxes to finance increased welfare payments

Answer Key

Q.No	Answer	Q.No	Answer	Q.No	Answer	Q.No	Answer
1	C	31	D	61	C	91	C
2	A	32	C	62	B	92	C
3	D	33	C	63	A	93	B
4	A	34	A	64	A	94	D
5	A	35	C	65	C	95	A
6	A	36	A	66	D	96	C
7	B	37	D	67	C	97	C
8	A	38	A	68	C		
9	D	39	A	69	D		
10	A	40	B	70	D		
11	D	41	B	71	B		
12	D	42	B	72	C		
13	A	43	D	73	C		
14	A	44	D	74	B		
15	B	45	C	75	A		
16	D	46	D	76	C		
17	C	47	A	77	C		
18	D	48	D	78	C		
19	C	49	A	79	C		
20	D	50	C	80	C		
21	A	51	B	81	B		
22	D	52	C	82	B		
23	A	53	A	83	A		
24	C	54	C	84	D		
25	A	55	C	85	D		
26	C	56	A	86	D		
27	D	57	C	87	D		
28	D	58	C	88	C		
29	D	59	C	89	A		
30	C	60	D	90	C		